

Local Water Done Well

Updates and Progress

Council Workshop

23rd January 2025

A new approach to water services delivery ...

PLANNING & ACCOUNTABILITY

- > Water services delivery plans
 - > Financial sustainability
- > Planning and accountability framework

WATER SERVICES DELIVERY ARRANGEMENTS

- > Streamlined process for water CCO set-up
 - > New water services delivery models
 - > Financing
- > Future arrangements for stormwater

ECONOMIC REGULATION & CONSUMER PROTECTION

- > Full economic regulation regime

WIDER REGULATORY SYSTEM

- > Drinking water quality regulation
- > Standards to help reduce water infrastructure costs

ENABLING LEGISLATION

- > [Local Government \(Water Services Preliminary Arrangements\) Act](#) [enacted into law in September 2024]
- > [Local Government \(Water Services\) Bill](#) [currently out for consultation]

Financial sustainability – requirements reminder

Councils must demonstrate delivery of ring fenced, financially sustainable water services that meet regulatory standards and unlock housing growth, based on the following tests:

- > **Revenue sufficiency:** Sufficient revenue to cover the costs (including servicing debt) of water services delivery.
- > **Investment sufficiency:** Sufficient projected investment to meet levels of service, regulatory requirements and provide for growth.
- > **Financing sufficiency:** Sufficient funding and financing to meet investment requirements.



Financial sustainability – new requirements

Since progress was reported in December DIA and LGFA have further clarified their expectations:

- > DIA expect council delivered water services to meet the same financial sustainability standards as CCOs, and LGFA expect these standards to be met by growth councils seeking higher borrowing limits
- > This means council water services will be expected to maintain a similar FFO to debt ratio as CCOs
- > LGFA have also clarified a higher level of FFO to debt ratio than previously indicated by DIA

The Local Government (Water Services) Bill (“the Bill”) requires all water service organisations to move to non-rates-based charging scheme within 5 years



Financial sustainability – QLDC assessment

ACTION



Financial modelling for inhouse water services is being revised based on new expectations:

> **Revenue sufficiency**

New FFO ratio requirements will likely require revenue increases

> **Investment sufficiency**

All tests have been met except growth; waiting on updated demand projections

> **Financing sufficiency**

As access to borrowing will be based on financial performance of ring-fenced water services, revenue will likely have to increase to access required lending



New planning and accountability framework



Water Services Strategy

Issued every three years, replaces LTP and 30YIS, but with more extensive requirements. An annual budget is also required.

Not subject to review by auditors.

Council must consult with community if they are delivering water services. If CCO established, then only consult with shareholder/s.

CCO shareholder/s determine the nature of their involvement in the water services strategy. Shareholder/s can require water organisation to amend the draft strategy based on their comments and approve the final strategy.



Statement of Expectations

[Applies only if CCO exists]
Outlines council's priorities and strategic direction to guide the board's decisions and actions. Water organisations must give effect to these statements.

Water Services Annual Report

An annual report for water services must be issued and is seen as the primary accountability document

Economic regulation regime



The Bill sets out the tools that the Commerce Commission will have to promote **sufficient revenue recovery**, and **efficient investment and maintenance** so that water services **meet regulatory requirements** and are delivered at a **quality that communities expect**.

- > **Information disclosure:** Base level tool. Will be analysed by the Commerce Commission to determine if further intervention is required on an entity-by-entity basis.
- > **Revenue thresholds:** Can set minimum and maximum revenue thresholds.
- > **Financial ringfence:** Can set amount of revenue to be reinvested into water services.
- > **Quality regulation:** Can set infrastructure and service quality standards and quality incentives to drive improvements in quality.
- > **Performance requirement regulation:** Can require certain actions to improve performance such as making certain types of investments or undertake cost benefit analysis.
- > **Price-quality regulation:** Can set maximum and minimum revenue and prices alongside quality performance standards.

Economic regulation regime



Commerce Commission will start with the least invasive tool (information disclosure) and determine whether further interventions are required based on review of this information.

Based on discussions with DIA we understand that the Commerce Commission will:

- > as the first priority, look at whether water services providers are collecting enough revenue and will be looking for increased efficiency and cost reflective charges.
- > focus on the financial sustainability of council run water services rather than CCOs in the first instance.
- > look at the whole of council financial performance to determine sustainability of inhouse services.

Water service delivery model options

1	Internal business unit or division
2	Single council-owned water organisation
3	Multi-council owned water organisation
4	Mixed council/consumer trust owned
5	Consumer Trust owned

- > The Bill sets out more clearly the path to establishing a CCO (single council or joint) and what the responsibilities of CCOs and owning Councils are
- > Clear mechanism for Councils to direct CCOs to focus on specific objectives and priorities such as growth
- > Councils will be required to closely monitor CCO performance in addition to the Commerce Commission's economic and quality monitoring
- > While the legislation clearly sets out the option of retaining water services in house, the increasing specificity in the CCO model, as well as the regulatory regime, clearly indicate the government's desire to transfer of water services to a CCO

Water service delivery model options - analysis

Analysis on future service delivery model options presented in December 2024 needs to be updated based on revised advice from DIA and LGFA and requirements of the Bill

1. Retain water services within QLDC



Financial analysis to be updated based on revised advice from DIA and LGFA on FFO ratio expectations. Benefits analysis to be updated based on the Bill's regulatory oversight regime.

2. Stand alone, single council water services entity



Benefits analysis to be updated based on the Bill's regulatory oversight regime.

3. Combined Entity



Combined Otago Southland water services entity is not an option as others have opted out. Financial analysis to be updated based on a smaller combined entity (Queenstown Lakes, Central Otago, Clutha, Waitaki and Gore). DIA are not supportive of a joint entity given the significant differences in our growth context.

Water service delivery model options - consultation

- > Council must consult on at least two options:
 - Retaining the existing approach; and
 - Establishing or joining a single, or joint, council stand alone water services organisation
- > Councils must assess the advantages and disadvantages of all options identified
- > Councils are only required to undertake consultation once, despite anything to the contrary in their significance and engagement policy



ACTION

To identify appropriate timing for QLDC to consult

Standards to help reduce water infrastructure costs



Single national wastewater and stormwater environmental performance standards. Regional Councils will be prohibited from requiring a higher (or lower) standard. The standard will provide requirements for land, river and ocean discharges. Regional Councils will be required to consent for at least 35 years and consents issued in line with the standard will not have to be notified.



Infrastructure design solutions. Will set out the design and operating requirements for standardised modular wastewater treatment plants that meet the national wastewater environmental performance standards.



Mandatory national engineering design standards. Sets consistent requirements for design and construction of drinking water, wastewater and stormwater network or reticulation infrastructure. Will replace existing Council Codes of Practice for Land Development.

DIA have indicated they expect these changes to consenting and standardisation tools to result in savings of up to 25% of CAPEX

Next steps

- > Financial and benefits analysis to be updated for the following:
 - retaining water services inhouse
 - single council CCO
 - smaller combined Otago Southland CCO
- > Updated financial and benefits analysis provided to Council for discussion on next steps, including agreement on which service delivery models will be consulted on and which is QLDCs's preferred option.
- > Identify latest date for consultation to ensure that WSDP timelines can be met and build a timeframe working back from that for further Council engagement.